

Message Text

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SUBJ: GOP'S 1977 INVESTMENT PLAN - A COMMENTARY

REF: LISBON A-112 OF APRIL 11, 1977

1. THE GOP'S 1977 INVESTMENT PLAN IS NOT, IN ANY STRICT MEANING OF THE PHRASE, A DEVELOPMENT PLAN. IT PRESENTS A GENERAL OUTLINE OF THE GOVERNMENT'S ECONOMIC STRATEGY, AN ASSESSMENT OF CURRENT CONDITIONS AND ELEMENTS OF A WORKING MODEL, BUT DOES NOT CONTAIN A FIRM SELECTION OF INVESTMENT PRIORITIES OR A REALISTIC PROJECTION OF FINANCING. THE PLAN DOES, NEVERTHELESS, REPRESENT A USEFUL EXERCISE. IT COMPILES A LIST OF THE COUNTRY'S AVAILABLE PROJECTS AND INDICATES THEIR STATUS. THIS PREPARATORY WORK WAS INDISPENSABLE FOR THE MEDIUM-TERM DEVELOPMENT PLAN TO BE SUBMITTED TO THE ASSEMBLY OF THE REPUBLIC BY MAY 15, 1977.

2. MANY OF THE BASIC ASSUMPTIONS AND FORECASTS IN THE PLAN ARE EVIDENTLY UNREALISTIC. THE 1977 INFLATION RATE WILL CERTAINLY SURPASS THE GOVERNMENT'S PROJECTION OF
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15 PERCENT. EVEN UNDER THE BEST OF CIRCUMSTANCES IT IS LIKELY TO APPROACH 25 PERCENT, BUT COULD EASILY EXCEED THAT LEVEL. LISBON'S CONSUMER PRICE INDEX FOR FEBRUARY 1977 WAS 24.1 PERCENT ABOVE FEBRUARY 1976, AND THE ECONOMY STILL MUST ABSORB THE FULL IMPACT OF DEVALUATION AND THE LIBERALIZATION OF THE PRICE-CONTROL SYSTEM.

3. THE 1977 GDP GROWTH RATE IS UNLIKELY TO REACH THE PROJECTED FIVE PERCENT IN REAL TERMS. THE EMBASSY'S PRELIMINARY CALCULATIONS INDICATE IT WILL BE IN THE RANGE OF THREE TO FOUR PERCENT.

4. THE GOVERNMENT NOW ADMITS THAT THE UNEMPLOYMENT LEVEL, AGGRAVATED BY THE RETURN OF MORE THAN 500,000 REFUGEES FROM THE FORMER COLONIES, SURPASSES 500,000. IF THE PLAN ACHIEVES ITS GOAL OF CREATING 125,000 NEW JOBS, THE COUNTRY WILL STILL HAVE MORE THAN 400,000 UNEMPLOYED AT THE END OF THE YEAR.

5. ONE OF THE PLAN'S PRINCIPAL WEAKNESSES IS ITS TREATMENT OF THE PRIVATE SECTOR. IT ESTIMATES THAT PRIVATE INVESTMENT WILL REACH 29 BILLION ESCUDOS IN 1977, BUT PROVIDES NO BASIS FOR THIS FIGURE. IT REFERS ONLY TO FUTURE LEGISLATION THAT WILL DEFINE THE ECONOMIC SECTORS IN WHICH PRIVATE BUSINESS CANNOT OPERATE. THIS RATHER VAGUE APPROACH PROBABLY REFLECTS THE LACK OF A DEFINITE POLICY RESOLUTION AT THE TIME THE PLAN WAS DRAFTED.

6. IN SUMMARY, THE PLAN WAS A USEFUL EDUCATIONAL EXPERIENCE FOR THOSE WHO DRAFTED IT, BUT DOES NOT PROVIDE A DEFINITE FRAMEWORK FOR GOVERNMENT ACTION. THE GOVERNMENT, IN EFFECT, IS STILL DEVELOPING ITS POLICIES ON AN AD HOC BASIS. HOPEFULLY THESE DECISIONS WILL HAVE BEEN TAKEN BY THE TIME THE FORTHCOMING MEDIUM-TERM DEVELOPMENT PLAN IS RELEASED.

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